



INDUSTRIAL SPECIAL INDEMNITY FUND

Fourth Quarter Report December 31, 2003 Calendar Year 2003

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State of Idaho INDUSTRIAL SPECIAL INDEMNITY FUND

FOURTH QUARTER REPORT - CALENDAR YEAR 2003

The Industrial Special Indemnity Fund (ISIF) files its Fourth Quarter Report for calendar year 2003 pursuant to Idaho Code §72-324. This report consists of the following chapters: Benefits, Claims Adjudication and Administrative Operations.

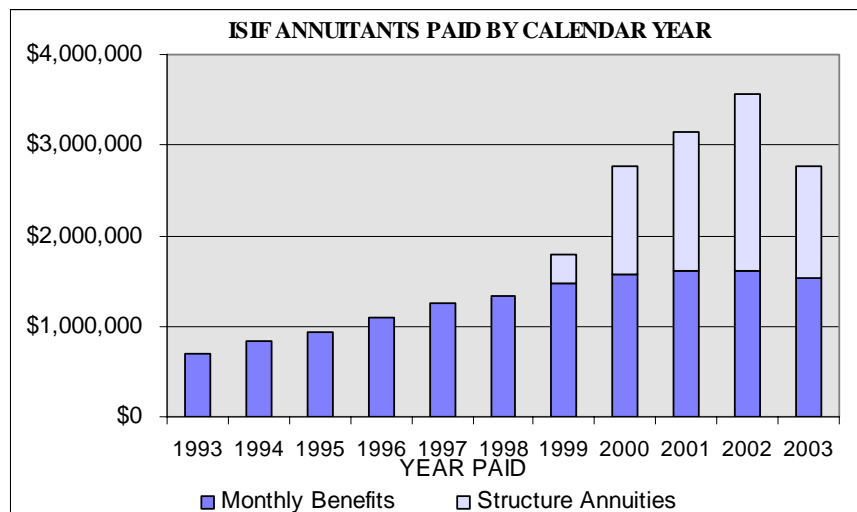
BENEFITS

Annuitant Periodic Benefits

Annuitant benefits are paid to individuals who have been awarded or have negotiated a settlement for periodic monthly benefits. Benefits are paid based on a percentage of the applicable state average weekly wage for year of benefit, the year of the injury and the injured worker's average weekly wage. Most annuitant benefits are also subject to the Carey formula, which apportions total and permanent disability benefits between the Industrial Special Indemnity Fund and the employer/surety. Annuitant benefits generally are paid for life. The 2003 state statutory rates for annuitant benefits are as follows:

2003 STATE AVERAGE WEEKLY WAGE	
Base of 45% state average weekly wage =	\$237.15
Base of 60% state average weekly wage =	\$316.20
Base of 67% state average weekly wage =	\$353.09

ISIF had 120 annuitants who received \$1,534,371 in monthly benefits in 2003. Six structure policies were purchased in 2003 totaling \$1,228,821. Annuitant benefits paid in calendar year 2002 were \$1,610,124 plus \$1,946,620 for the purchase of eight structure policies. Structure annuities have been utilized the prior four years as means to fund future annuitant monthly benefits as shown by the graph below.



An arrearage benefit may be owed at the conclusion of a claim and prior to the commencement of current monthly benefits. An arrearage is most likely to occur on judgment loss or consent to entry of judgment claims. Arrearage benefits paid in 2003 total \$38,404, and for 2002 total \$8,093.

MONTHLY & ARREARAGE BENEFIT		
CALENDAR YEAR		
	2003 Total	2002 Total
Monthly Benefit	\$2,763,192	\$3,556,744
Arrearage Benefit	38,404	8,093
Total Benefit	\$2,801,596	\$3,564,837

Settlement Benefits

Lump sum and lump sum/statutory benefits are the two types of settlement options. Lump sum benefits are one time only cash payments issued upon settlement of a claim. Lump sum/statutory benefits are settlements in which a lump sum payment may be made upon settlement; however, some form of future periodic benefit will also be paid.

Future periodic benefits vary in amount and time frame depending upon the terms of settlement. Generally, the periodic payments are based on a percentage of the state's average weekly wage for year of benefit and paid monthly for the life of the claimant. Lump sum/statutory benefit settlements represent substantial lifetime benefits.

LUMP SUM BENEFIT		
CALENDAR YEAR		
	2003 Total	2002 Total
No. Claims	35	46
Total Lump Sum	\$1,069,500	\$1,063,500

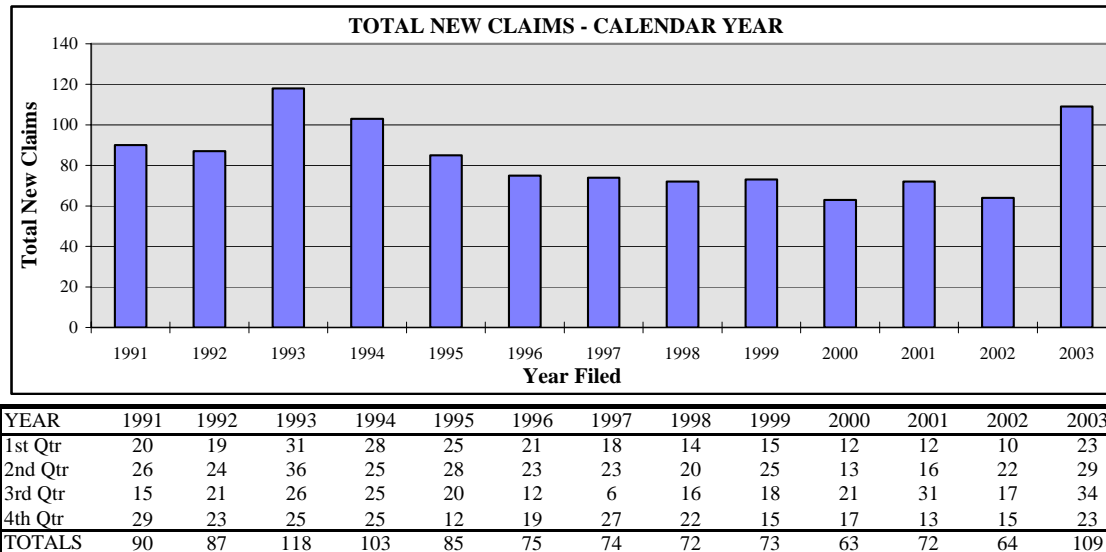
Forty-six claims were closed with lump sum benefits in calendar year 2002. In calendar year 2003, thirty-five claims were closed with a lump sum benefit averaging \$30,557 per settlement.

Two claims were closed by lump sum/statutory benefit during calendar year 2002. There was one claim closed by lump sum/statutory benefit in year 2003. In addition to lump sum/statutory benefit settlements, judgment loss decisions by the Industrial Commission result in additional annuitant claims receiving future periodic payments. Benefits for judgment loss claims are based on a percentage of the state's average weekly wage and are paid for life with annual increases. The Industrial Special Indemnity Fund received three judgment loss decisions in calendar year 2002, and three in year 2003.

CLAIMS ADJUDICATION

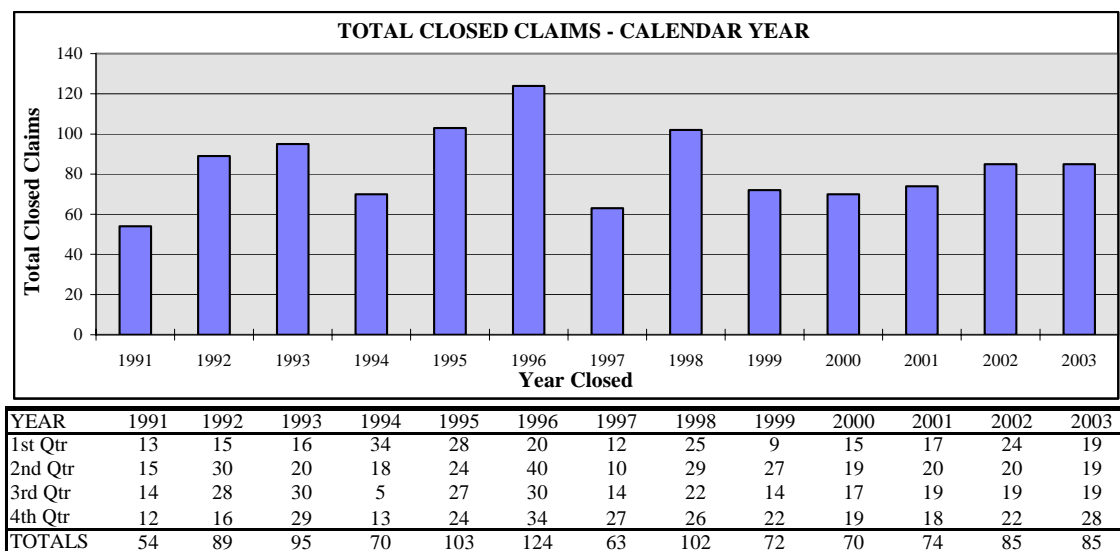
Claims adjudication is a two-fold process involving both the filing of formal or informal claims by claimants and/or employer/sureties alleging Industrial Special Indemnity Fund liability, and the final determination of those claims by result outcomes (non-merit, settlement or judgment loss).

New Claim Filings



New claim filings had stabilized over the past seven years averaging 70 filings per year. However, 2003 new claim filings were nearly 60% higher than in previous years. In general, these new claims represent potentially greater liability as workers compensation claims become more complex legally and medically, with economic downturns creating more difficult return to work issues.

Closed Claims



During calendar year 2003, 109 claims were opened and 85 claims were closed resulting in a net of 80 open litigated claims as of December 31, 2003.

Result Outcomes

The result outcome category, the number of claims closed by each result outcome, and the percentage of claims closed in each result category is shown below. In calendar year 2003, non-merit and settled claims accounted for 96% of the total closed claims. For 2002, settled claims and non-merit claims accounted for 96% of the total closed claims. These percentages follow very closely the same result percentages of previous years. Total litigation costs represent the average defense expense of a claim by result outcome category.

RESULT OUTCOMES				
	2003 Total	% Total	2002 Total	% Total
Non-merit Claims:	No.		No.	
Dis W/O	3	4%	6	7%
Dis W/P	2	2%	1	1%
Judg Win	2	2%	6	7%
Denied	35	41%	18	21%
Settled Claims:				
LSS	35	41%	46	54%
LSS/Stat Bens	1	1%	2	2%
Judgment Loss:				
Judg Loss	3	4%	3	4%
Other:				
Appeal - Affirmed	1	1%	3	4%
Appeal - Reversed	1	1%		
Appeal-Dismissed	2	2%		

RESULT OUTCOMES DEFINITION
Non-merit Claims <ul style="list-style-type: none"> * Dismissal without Prejudice - Dismissal by the Industrial Commission but allows the claimant to sue again on the same cause of action. * Dismissal with Prejudice - Final disposition of a claim by the Industrial Commission barring the right to bring another claim on the same cause. * Judgment Win - Final decision by the Industrial Commission on a fully litigated claim determining no liability to the ISIF. * Denied - An in-house denial of ISIF liability.
Settled Claims <ul style="list-style-type: none"> * LSS - Lump sum settlement agreement. * LSS/Stat Bens - Lump sum settlement that includes monthly benefits to be paid in the future.
Judgment Loss <ul style="list-style-type: none"> * Judgment Loss - Final decision by the Industrial Commission on a fully litigated claim determining ISIF to have liability.
Appeal Affirmed <ul style="list-style-type: none"> * Appeal from the Industrial Commission decision affirmed by the State Supreme Court.
Appeal Reversed <ul style="list-style-type: none"> * Appeal from the Industrial Commission decision reversed by the State Supreme Court.

LITIGATION COSTS ASSOCIATED WITH SETTLEMENT & JUDGMENT LOSS CLAIMS

TOTAL LITIGATION COST BY RESULT OUTCOME						
	LUMP SUM		LSS WITH STAT BEN		JUDGMENT LOSS	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	47	210,418	10	97,099	2	49,872
1996	54	314,303	12	86,733	6	53,668
1997	32	237,894	7	25,676	2	28,676
1998	5	212,409	9	45,657	2	30,308
1999	31	111,326	4	33,085	3	82,207
2000	23	93,595	3	4,786	2	34,101
2001	31	193,216	2	5,347	1	11,870
2002	46	66,737	2	8,115	3	43,238
TOTAL	269	\$1,439,898	49	\$306,497	21	\$333,940
AVERAGE CLAIM COST BY RESULT		\$5,353				\$15,902
2003						
Total	35	\$106,178	1	\$984	3	\$40,499
AVERAGE CLAIM COST BY RESULT		\$3,034				\$13,500

LITIGATION COSTS ASSOCIATED WITH NON-MERIT CLAIMS

TOTAL LITIGATION COST BY RESULT OUTCOME								
	DIS W/O		DIS W/P		DENIED		JUDGE W	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	21	108,818	1	2,929	11	6,374	4	58,350
1996	16	42,762	0	0	10	16,710	19	350,925
1997	6	22,195	0	0	7	195	7	169,624
1998	17	91,848	2	30,033	21	16,790	12	191,583
1999	8	46,441	0	0	12	14,320	12	192,003
2000	5	46,220	2	13,384	21	2,636	8	175,166
2001	4	28,206	1	7,313	19	1,466	9	161,758
2002	6	61,369	1	13,768	18	3,060	6	135,022
TOTAL	83	\$447,859	7	\$67,427	119	\$61,551	77	\$1,434,431
AVERAGE CLAIM COST BY RESULT		\$5,396				\$517		
2003								
Total	2	\$2,643	1	\$259	35	\$14,007	2	\$38,194
AVERAGE CLAIM COST BY RESULT		\$1,322				\$400		

Litigation Expense

While many factors affect overall litigation costs, Idaho Code §72-334, the “60 day” rule, has contributed to substantial litigation savings since its passage in 1997. The “60 day” rule requires a party to file a Notice of Intent with supporting documentation with the ISIF 60 days prior to filing a Complaint.

The ISIF has 60 days to review, deny, or possibly settle a claim in-house. At the conclusion of 60 days the surety or claimant may file a Complaint Against the ISIF. Upon receipt of a Complaint, the ISIF will refer the claim to counsel.

Litigation costs are expended to fourteen sub-object codes as bills are paid during a claim's adjudicated life. Once the adjudication process is completed, a report is submitted to the Industrial Commission reporting all litigation costs incurred during the life of the claim. Total annual litigation expenditures declined after reaching highs of \$800,000 until the current year when litigation costs have escalated each quarter.

LITIGATION EXPENDITURES						
QUARTER & CALENDAR YEAR REPORT						
<i>Litigation Expenditures</i>	1st Quarter 2003	2nd Quarter 2003	3rd Quarter 2003	4th Quarter 2003	2003 Total	2002 Total
7090-01 Attorney Fees	\$41,791	\$55,080	\$69,770	\$77,160	\$243,801	\$198,341
7090-02 Costs & Expenses	585	1,910	1,410	1,836	5,741	6,844
7090-03 Medical/Vocational Reprt	246	352	210	430	1,239	1,586
7090-04 Deposition Costs	1,524	4,732	3,476	5,196	14,927	16,698
7090-05 Investigations	8,597	4,941	3,836	904	18,278	8,905
7090-06 Research or Briefs	-	-	-	-	-	-
7090-07 Appeal Attorney Fees	2,684	1,762	1,530	-	5,976	13,513
7090-08 Appeal Costs & Expenses	3	19	16	-	39	126
7090-12 Medical Expenses (IME)	-	-	600	-	600	10,147
7090-13 Rehabilitation	1,156	3,973	2,546	1,686	9,362	10,135
7090-14 Adjuster Expenses	2,305	5,858	3,539	5,704	17,406	11,623
7090-15 Refund	-	-	-	-	-	-
Total Litigation Expenditures	\$58,891	\$78,628	\$86,933	\$92,916	\$317,368	\$277,919

ADMINISTRATIVE OPERATIONS

Revenue

The Fund was dependent on a levy system for revenue funding prior to July 1, 1997. The levy was a percent of certain paid benefits assessed to insurance companies and self-insured employers on individual claims at the time of claim closure. Over time the levy was inadequate to provide the sustained revenue needs of the Fund.

Due to the prolonged inability of the levy to generate adequate funding, the workers' compensation industry and the Industrial Special Indemnity Fund drafted legislation and changed the funding method. As a result, the Idaho State Legislature passed a new funding formula based on an annual assessment of two times the Fund's fiscal year expenditures less cash available on June 30. The assessment is paid semi-annually by sureties, self-insured employers and the State Insurance Fund based on their pro-rata assessment share.

ASSESSMENT FORMULA BASED ON FISCAL YEAR							
Fiscal Year	1997	1998	1999	2000	2001	2002	2003
Total Expenditures FY	\$2,437,624	\$2,914,649	\$3,166,801	\$3,952,194	\$4,489,865	\$4,588,902	\$4,902,891
Cash Available As of 6/30	1,303,876	504,787	2,084,943	3,218,756	3,547,992	4,613,314	5,208,312
Assessment	\$3,571,372	\$5,324,511	\$4,248,659	\$4,685,633	\$5,431,738	\$4,564,490	\$4,597,470

ASSESSMENT TIME LINE				
Assessment Date	Total Assessment	Indemnity Period	Due Date	Payment Amount
June 30, 1997	\$3,571,372	7-1-97 -->12-31-97	Apr-98	\$1,785,686
		1-1-98 --> 6-30-98	Sep-98	\$1,785,686
June 30, 1998	\$5,324,511	7-1-98 -->12-31-98	Apr-99	\$2,662,256
		1-1-99 --> 6-30-99	Sep-99	\$2,662,256
June 30, 1999	\$4,248,659	7-1-99 -->12-31-99	Apr-00	\$2,124,330
		1-1-00 --> 6-30-00	Sep-00	\$2,124,330
June 30, 2000	\$4,685,633	7-1-00 -->12-31-00	Apr-01	\$2,342,817
		1-1-01 --> 6-30-01	Sep-01	\$2,342,817
June 30, 2001	\$5,431,738	7-1-01 -->12-31-01	Apr-02	\$2,715,869
		1-1-02 --> 6-30-02	Sep-02	\$2,715,869
June 30, 2002	\$4,564,490	7-1-02-->12-31-02	Apr-03	\$2,282,245
		1-1-03--> 6-30-03	Sep-03	\$2,282,245
June 30, 2003	\$4,597,470	7-1-03-->12-31-03	Apr-04	\$2,298,735
		1-1-04--> 6-30-04	Sep-04	\$2,298,735

Without a change in revenue funding, the Fund would have been unable to satisfy its obligations early in 1998. The current revenue system creates a method of funding that is equitable, accountable, and certain.

Expenditure

The Fund's administrative operating expenditures include salaries for three full time employees and general office expense. Total operational expenditures for calendar year 2003 were \$240,383. Operational expenditures for calendar year 2002 were \$230,819.

Benefit expense reflects all benefits paid in either lump sum, arrearage or monthly annuitant payments.

Total litigation costs, which include all costs associated with claims adjudication such as attorney fees and costs, depositions, vocational rehabilitation and investigation, have declined from highs of \$800,000 in 1995. In addition to the significant cost savings, the average number of litigation days per claim has also decreased. Litigation costs however, have substantially increased in calendar year 2003 due in part to higher claim filings and staffing shortage.

REVENUE - EXPENDITURE REPORT						
CALENDAR YEAR 2003						
Revenue	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2003 Total	2002 Total
Beginning Cash Available	\$5,564,454	\$4,847,356	\$5,208,312	\$5,393,536	\$5,564,454	\$4,600,299
Levy/Interest	-	-	-	-	-	-
Assessment/Interest	56,625	2,420,389	880,048	1,382,019	4,739,081	6,101,231
Total Cash Available	<u>\$5,621,079</u>	<u>\$7,267,745</u>	<u>\$6,088,360</u>	<u>\$6,775,555</u>	<u>\$10,303,535</u>	<u>\$10,701,530</u>
Expenditure						
Administrative	\$45,608	\$79,160	\$59,434	\$56,181	\$240,383	\$230,819
Benefits	669,225	1,901,644	548,456	751,770	3,871,096	4,628,337
Litigation	58,891	78,628	86,933	92,916	317,368	277,919
Levy Refund	-	-	-	-	-	-
Total Expenditures	<u>\$773,724</u>	<u>\$2,059,433</u>	<u>\$694,823</u>	<u>\$900,867</u>	<u>\$4,428,847</u>	<u>\$5,137,076</u>
Encumbered						
Calendar Year 2003						
Ending Cash Balance	\$4,847,356	\$5,208,312	\$5,393,536	\$5,874,689	\$5,874,689	\$5,564,454

REVENUE - EXPENDITURE REPORT						
FISCAL YEAR 2004						
Revenue	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2004 YTD	2003 Total
Beginning Cash Available	\$5,208,312	\$5,393,536			\$5,208,312	\$4,613,314
Levy/Interest	-	-			-	-
Assessment/Interest	880,048	1,382,019			2,262,067	5,497,889
Total Cash Available	<u>\$6,088,360</u>	<u>\$6,775,555</u>			<u>\$7,470,379</u>	<u>\$10,111,202</u>
Expenditure						
Administrative	\$59,434	\$56,181			\$115,614	\$237,526
Benefits	548,456	751,770			1,300,227	4,370,698
Litigation	86,933	92,916			179,849	294,666
Levy Refund	-	-			-	-
Total Expenditures	<u>\$694,823</u>	<u>\$900,867</u>			<u>\$1,595,690</u>	<u>\$4,902,890</u>
Encumbered					-	-
Fiscal Year 2004						
Ending Cash Balance	\$5,393,536	\$5,874,689			\$5,874,689	\$5,208,312